

CASPIAN-GAASTRA FIRE AUTHORITY

Financial Report
With Supplemental Information
Prepared in Accordance with GASB 34

JUNE 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CASPIAN-GAASTRA FIRE AUTHORITY	County IRON
Audit Date JUNE 30, 2004	Opinion Date OCTOBER 04, 2004	Date Accountant Report Submitted to State: DECEMBER 02, 2004	

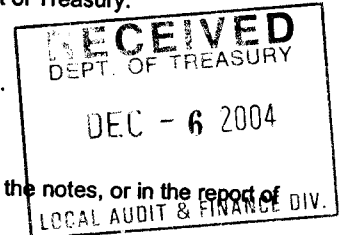
We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.



- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) DS ROSTAGNO, CPA, P.C.			
Street Address 101 WEST MAPLE STREET		City IRON RIVER	State MI
Accountant Signature 		ZIP 49935	Date DECEMBER 02, 2004

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INDEPENDENT AUDITOR'S REPORT

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Governing Board
Caspian-Gaastra Fire Authority
P.O. Box 530
Caspian, Michigan 49915

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the **Caspian-Gaastra Fire Authority**, as of and for the fiscal year ended June 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Governing Board, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities and each major fund of the Authority at June 30, 2004, and the respective changes in financial position thereof for the fiscal year ended, in conformity with generally accepted accounting principles in the United States of America.

As described in Note A, the **Caspian-Gaastra Fire Authority** has implemented a new financial reporting model, as required by the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 01, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 04, 2004 on our consideration of the **Caspian-Gaastra Fire Authority's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 5 through 12 and the budgetary comparison information are not a required part of the basic financial statements but are supplemental information required by the *Governmental Accounting Standards Board* and by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Caspian-Gaastra Fire Authority's** basic financial statements. The introductory section and the combining and individual fund financial statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 04, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CASPIAN GAASTRA FIRE AUTHORITY
ONE MUSEUM DRIVE
P.O. BOX 350
CASPIAN, MI 49915**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

The management of the **Caspian-Gaastra Fire Authority** provides this narrative overview and analysis of the financial activities of the **Caspian-Gaastra Fire Authority** for the fiscal year ended June 30, 2004. As readers, you are encouraged to read this discussion and analysis in conjunction with the Authority's financial statement information included in this report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

The Fire Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the Fire Authority are governmental funds.

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ONE MUSEUM DRIVE
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CASPIAN, MI 49915**

**Management's Discussion and Analysis
(Continued)
For the Fiscal Year Ended June 30, 2004**

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating the Authority's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

The Fire Authority maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and debt service fund, both of which are considered major funds.

The Fire Authority adopts an annual budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund, and is included in the "Required Supplementary Information" section of this document.

Notes to the Financial Statements

Notes to the financial statements are included in the basic financial statements, and provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements.

Supplementary Information

Required supplementary information follows the basic financial statements, and includes budgetary comparison schedules for the General Fund as presented in the governmental fund financial statements.

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**Management's Discussion and Analysis
(Continued)
For the Fiscal Year Ended June 30, 2004**

Government-wide Financial Analysis

In time, net assets of a governmental entity may serve as a useful indicator of the government's financial position. In the case of the Fire Authority, assets exceeded liabilities by \$ 163,860 at June 30.

By far, the largest portion of the Authority's net assets is its investment in capital assets (land, buildings, machinery, and equipment), less any outstanding debt related to acquiring the asset. These capital assets are used to provide services to citizens and are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2004, the Authority reported \$ 148,839 in net assets invested in capital assets net of related debt.

Summary of Net Assets

In a condensed format, the following is a summary of the Authority's net assets at June 30, 2004. Although GASB 34 requires that comparative financial data be presented, since this is the first year of implementation, prior year data is not yet available. Comparative financial data will be included in this schedule in subsequent years.

	<u>Governmental Activities</u>
<u>Assets</u>	
Current and other assets	\$ 15021
Capital assets, net	<u>338551</u>
Total Assets	\$ 353572
<u>Liabilities</u>	
Long-term liabilities	\$ 158940
Other liabilities	<u>30772</u>
Total Liabilities	\$ 189712

**CASPIAN GAASTRA FIRE AUTHORITY
ONE MUSEUM DRIVE
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**Management's Discussion and Analysis
(Continued)
For the Year Ended June 30, 2004**

Summary of Net Assets (Continued)

	<u>Governmental Activities</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	\$ 148839
Restricted for Debt Services	1166
Unrestricted	<u>13855</u>
Total Net Assets	\$ 163860

For governmental activities, net assets increased by \$ 124,838 during the year.

The following represents the change in net assets for the Authority's governmental funds for the fiscal year ended June 30, 2004. (Please note that since this is the first year of implementation of GASB 34, prior year financial data is not available, but will be provided in subsequent years).

	<u>Governmental Activities</u>
<u>REVENUES</u>	
<u>Program Revenues</u>	
Charges for services	\$ 110876
Operating grants and contributions	0
Capital grants and contributions	64997
<u>General Revenues</u>	
Investment earnings	9
Other	<u>1456</u>
TOTAL REVENUES	\$ 177338

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Management's Discussion and Analysis
(Continued)
For the Year Ended June 30, 2004

Summary of Net Assets (Continued)

<u>EXPENSES</u>	<u>Governmental Activities</u>
Administration	\$ 2300
Fire Protection	15254
Debt Service	
Interest and fees	12454
Depreciation	<u>22492</u>
TOTAL GOVERNMENTAL EXPENSES	52500
 Increase (Decrease) in Net Assets	 124838
Net Assets, Beginning of Year	<u>39022</u>
Net Assets, End of Year	\$ <u>163860</u>

Governmental Activities

Capital grants and contributions were \$ 64,997, or approximately 38 percent of total governmental revenues. These grants consisted of a FEMA Grant in the amount of \$ 53,028 for fire equipment, and a Domestic Preparedness Grant for \$ 11,969 received from the State of Michigan, and used for fire equipment.

The Fire Authority expended \$ 52,500 on governmental programs and services. Except for depreciation, the largest expense category was incurred for fire protection, which totaled \$ 15,254, or approximately 29 percent of total expenditures. Interest on long-term debt comprised \$ 12,454, or approximately 24 percent of total expenditures. The Authority invested \$ 70,904 in capital equipment.

**CASPIAN GAASTRA FIRE AUTHORITY
ONE MUSEUM DRIVE
P.O. BOX 350
CASPIAN, MI 49915**

**Management's Discussion and Analysis
(Continued)
For the Year Ended June 30, 2004**

Financial Analysis of the Governmental Funds

As previously noted, the Fire Board uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the Fire Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the Authority's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The Authority's governmental funds reported combined ending fund balances of \$ 15,021 of which \$13,855 is unreserved and is available for spending at the government's discretion.

The Authority's primary governmental fund is its general fund. There are no reservations in the general fund's fund balance.

On the budgetary basis of accounting, the Authority ended the fiscal year with revenues slightly lower than the final projection. Total expenditures were slightly higher than the projected, both for the original and the final budget. At fiscal year end, the fund balance was lower than the final amended budget projections.

General fund financial and budgetary highlights of the fiscal year include:

- * Local unit assessments and intergovernmental grants were exactly as projected. Interest earnings were just \$ 1 less than estimated in the final budget.
- * Other revenue was down significantly from the initial and final amended budget, coming in at only \$ 1,456, which is a significant drop from the budgeted estimates of \$ 2,200 from the original budget, and \$ 2,455 in the final amended budget.

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**Management's Discussion and Analysis
(Continued)
For the Year Ended June 30, 2004**

Governmental Funds (Continued)

- * Expenditures in total for the general fund were \$ 88,458 just \$ 794 more than the final amended budget of \$ 87,664. This was due in part to the fact that maintenance and repair costs exceeded budgetary projections by \$ 2,010. Liability insurance was also \$ 348 more than the final budgetary projection.

Capital Assets and Debt Administration

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation, for its governmental activities as of June 30, 2004 is \$ 338,551. The investment in capital assets includes land, buildings, fire and truck equipment, protective gear, communications equipment, and other safety equipment.

Major capital events during the current year included the purchase of various types of fire equipment and protective gear with a total cost of \$ 70,904. This was paid for, in large part, by the capital grants discussed above.

Long-term debt

As of June 30, 2004, the Fire Authority had total debt outstanding of \$ 189,712. Of this amount, \$ 30,772 is due and payable within the next 12 months.

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**Management's Discussion and Analysis
(Continued)
For the Year Ended June 30, 2004**

Long-term debt (Continued)

The following areas highlight the Fire Authority's priorities and accomplishments:

Providing the Fire Authority with the best state-of-the-art equipment. To this end, the Fire Authority has been very active with grant applications, since municipal funding is limited. They have been successful in the past two years.

Future plans include:

Continuation with the improvement of the Fire Authority's equipment and performance program.

Requests for Information

This financial report is designed to provide a general overview of the Fire Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

**Caspian-Gaastra Fire Authority
P.O. Box 530
Caspian, Michigan 49915**

BASIC FINANCIAL STATEMENTS

CASPIAN-GAASTRA FIRE AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30, 2004

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash and Cash Equivalents (Note C)	\$ 11505
Prepaid Insurance	<u>3516</u>
Total Current Assets	15021
<u>Noncurrent Assets</u>	
Capital Assets, Net (Note H)	<u>338551</u>
Total Noncurrent Assets	338551
TOTAL ASSETS	353572
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable	0
Bonds/Notes Payable, Due within one year (Note I)	<u>30772</u>
Total Current Liabilities	30772
<u>Non-current Liabilities</u>	
Bonds/Notes Payable (Note I)	<u>158940</u>
Total Non-current Liabilities	158940
TOTAL LIABILITIES	189712
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	148839
Restricted for Debt Services	1166
Unrestricted	<u>13855</u>
TOTAL NET ASSETS	\$ 163860

The notes to the financial statements are integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

<u>FUNCTIONS/PROGRAMS</u>	<u>PROGRAM REVENUES</u>			
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS</u>
Primary Government -				
Public Safety	\$	\$	\$	\$
Administration	2300			
Fire Protection	15254	23892		
Interest on Long-Term Debt	12454	86984		64997
Depreciation (Unallocated)	22492			
Total Governmental Activities	52500	110876	-0-	64997

Miscellaneous Income
Interest and Investment Earnings

Total General Revenues

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

CASPIAN-GAASTRA FIRE AUTHORITY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

GOVERNMENTAL
ACTIVITIES

\$
 (2300)
 73635
 74530
 (22492)
\$ 123373

1456
9

1465

124838

39022

\$ 163860

The notes to the financial statements are an integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2004

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>			
Cash and Investments (Note C)	\$ 10339	\$ 1166	\$ 11505
Prepaid Insurance	<u>3516</u>	<u>0</u>	<u>3516</u>
TOTAL ASSETS	\$ <u>13855</u>	\$ <u>1166</u>	\$ <u>15021</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	0	0	0
<u>FUND BALANCES</u>			
Reserved for Debt Service	0	1166	1166
Unreserved and undesignated	<u>13855</u>	<u>0</u>	<u>13855</u>
TOTAL FUND BALANCES	13855	1166	15021
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>13855</u>	\$ <u>1166</u>	\$ <u>15021</u>

The notes to the financial statements are integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS
GOVERNMENTAL FUNDS

JUNE 30, 2004

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 15021

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

The cost of capital assets is: 392282
Accumulated depreciation is: (53731)

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds Payable (189712)

Other long-term assets not payable to pay current period expenditures therefore deferred in the funds 0

Accrued interest is not included as a liability in governmental funds 0

Amounts due to other non-governmental funds are not reported in the government-wide financial statements 0

Total Net Assets - Governmental Activities \$ 163860

The notes to the financial statements are an integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

JUNE 30, 2004

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>REVENUE</u>			
Local Unit Assessments	\$ 23892	\$ 86984	\$ 110876
Use of money and property	9		9
Miscellaneous	1456		1456
Intergovernmental	<u>64997</u>	<u>0</u>	<u>64997</u>
TOTAL REVENUE	\$ 90354	\$ 86984	\$ 177338
<u>EXPENDITURES</u>			
Current Operating			
Public Safety	15254		15254
Administration	2300		2300
Debt Service			
Principal		74530	74530
Interest and Fees		12454	12454
Capital Outlay	<u>70904</u>	<u>0</u>	<u>70904</u>
TOTAL EXPENDITURES	88458	86984	175442
Excess (Deficiency) of Revenues Over Expenditures	1896	-0-	1896
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating transfers in	-0-	-0-	-0-
Operating transfers out	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
NET CHANGE IN FUND BALANCES	1896	-0-	1896
FUND BALANCES - BEGINNING OF YEAR	<u>11959</u>	<u>1166</u>	<u>13125</u>
FUND BALANCES - END OF YEAR	\$ <u><u>13855</u></u>	\$ <u><u>1166</u></u>	\$ <u><u>15021</u></u>

The notes to the financial statements are an integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

GOVERNMENTAL FUNDS

JUNE 30, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 1896

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as
expenditures; in the statement of activities,
these costs are allocated over their estimated
useful lives as depreciation.

Depreciation Expense

(22492)

Capital Outlay

70904

Total

48412

Revenue reported in the statement of activities that does
not provide current financial resources and are not
reported as revenue in the governmental funds

0

Accrued interest is recorded in the statement of activities
when incurred; it is not reported in governmental funds
until paid

0

Repayment of bond principal is an expenditure in the
governmental funds, but not in the statement of activities
(where it reduces long-term debt)

74530

Increases (Decreases) in compensated absences are reported
as expenditures when financial resources are used in the
governmental funds in accordance with GASB Interpretation
No. 6

0

Change in Net Assets of Governmental Activities

\$ 124838

The notes to the financial statements are an integral part of this report.

NOTES TO THE FINANCIAL STATEMENTS

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by the **Caspian-Gaastra Fire Authority**, Caspian, Michigan, conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the more significant policies:

THE FINANCIAL REPORTING ENTITY

The **Caspian-Gaastra Fire Authority** was formed to organize, equip, and manage a fire department to provide fire protection for the land areas within the boundaries of the cities of Caspian and Gaastra. The **Caspian-Gaastra Fire Authority** was formed on February 01, 2001, and, as provided by statute, operates under a Governing Board which consists of 2 members appointed by the governing body of each respective municipality, plus one additional member selected by the Board who shall be a resident of a participating municipality.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

The criteria established by GASB Statement 14, The Financial Reporting Entity, is used to determine the primary government unit and the component units to be included in the financial reporting entity.

This Statement describes the characteristics of a primary government unit, which includes a separately elected governing board, legally separate government possessing corporate power and separate legal standing, and fiscal independence. GASB 14 also provides criteria for defining the component unit, based on the fundamental concept of accountability.

BLENDED COMPONENT UNITS

A blended component unit is a legally separate entity from the local unit, but is so intertwined with the local unit that it is, in substance, the same as the local governmental unit.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BLENDED COMPONENT UNITS (Continued)

A basic strategy of GASB 14 is to present financial information for component units separately from the financial information for the primary government.

This is achieved through the discrete presentation method. However, in the case of blended component units, GASB believes that it would be more appropriate to use the blending method to incorporate the financial information of a component unit into the reporting entity's financial statements.

When the blending method is used, transactions and balances of a component unit are merged with similar transactions and balances of the primary government so that there is no way to identify which balances relate to the component unit and which relate to the primary government.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BLENDED COMPONENT UNITS (Continued)

On the basis described above, there are no discretely presented units, nor are there any blended component units whose financial statements are included in the financial statements of the Caspian-Gaastra Fire Authority.

JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility.

An ongoing financial responsibility is determined as a participating government's obligation in some manner for debts or the joint venture's existence depends on continued funding by the participating government.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES (Continued)

There are no joint ventures to be reported.

JOINTLY GOVERNED ORGANIZATIONS

A jointly governed organization is a multigovernmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

There are no jointly governed organizations to be reported.

RELATED ORGANIZATIONS

A related organization is an organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relations) even though the primary government appoints a voting majority of the organization's governing board.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RELATED ORGANIZATIONS (Continued)

There are no related organizations to be reported.

BASIS OF PRESENTATION

The Fire Authority follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 adds the following components to the financial statements:

Management's Discussion and Analysis

A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Government-wide financial statements

These include financial statements prepared using full accrual accounting for all of the government's activities.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Government-wide financial statements
(Continued)

This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Annual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Program Activities.

Statement of Net Assets

The Statement of Net Assets displays the financial position of the primary government (governmental activities).

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Statement of Net Assets (Continued)

Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expenses - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government are broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Program Activities

The statement of program activities reports expenses and revenues in a format that focuses on the cost of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Budgetary comparison schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The Fire Authority and many other governments revise their original budgets over the course of the year for a variety of reasons.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the Fire Authority as a whole) and fund financial statements. The reporting model focus is on both the Fire Authority as a whole and the fund financial statements, including the major individual funds of the governmental categories.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental. In the government-wide Statement of Net Assets, the governmental column (a) is presented, and (b) is reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Both government-wide and fund financial statement presentations provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the financial information. The Fire Authority generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

The Fire Authority may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety) that is otherwise being supported by general government revenues (Interest and Investment earnings). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

The program revenues must be directly associated with the function (public safety).

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Program revenues include 1) charges to customers for fire protection and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function of segment. Other items not properly included among program revenues are reported as general revenues. The Fire Authority does not allocate indirect expenses. When applicable, the operating grants and contributions column includes operating-specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants.

In the fund financial statements, financial transactions and accounts of the Fire Authority are organized on the basis of funds.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

The following is a brief description of the specific funds used by the Fire Authority:

GOVERNMENTAL FUNDS

These funds are those through which most governmental functions typically are financed.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

GOVERNMENTAL FUNDS (Continued)

The acquisition, use, and balances of the Authority's expendable financial resources and the related current liabilities are accounted for through the Governmental Funds. These funds are as follows:

General Fund

This fund is used for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from assessments from participating municipalities.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

GOVERNMENTAL FUNDS (Continued)

Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Both the General Fund and the Debt Service Fund are major funds for government-wide reporting purposes.

MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

With this measurement focus, only current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements.

Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statement of net assets and statement of activities are accounted for on a flow of economic resources measurement focus.

With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net assets.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

The statement of net assets and statement of activities are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The fund financial statements of the General and Debt Service funds are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. Interest income is recorded as earned. Federal and State reimbursement-type grants revenue is considered to be measurable and available as revenue when related eligible expenditures are incurred.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

Expenditures, other than accrued interest and long-term debt, are recorded when the fund liability is incurred.

The local government unit applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed for accountability purposes only.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

ENCUMBRANCES

It is the Fire Authority's policy to honor all unfilled contracts/orders at year-end, but the authority to complete these transactions is provided by the new year's budget appropriations, as unexpended appropriations of the current year lapse at year-end.

CASH AND CASH EQUIVALENTS

The Fire Authority pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

The Fire Authority classifies cash on hand, cash on deposit (including certificates of deposit), and highly liquid investments with an original maturity of ninety days or less when purchased as cash in its financial statements.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

INVENTORIES

Inventories of supplies are expended as received.

RECEIVABLES

Accounts which will be collected within sixty days of year-end are accrued as accounts receivable in the General Fund. On an annual basis the charges are reviewed for collectibility.

INTEREST RECEIVABLE

Interest on certificates of deposit is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

DUE TO/FROM OTHER FUNDS

Transactions between funds that had not been paid or received as of fiscal year-end have been recorded as interfund accounts receivable and payable in the financial statements. These interfund receivables and payables do not represent Board-approved loans between funds.

DEFERRED REVENUE

Deferred revenue represents amounts under the modified accrual basis of accounting for which asset recognition criteria have been met but for which revenue recognition criteria have not been met, whereby such amounts are measurable but not considered currently available resources.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FUND EQUITY

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes. Designated fund balances represent amounts earmarked by the Fire Authority for future expenditures.

BUDGETS AND BUDGETARY ACCOUNTING

The Authority follows the State of Michigan Uniform Budgeting and Accounting Act for budgeting procedures. Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

BUDGETS AND BUDGETARY ACCOUNTING
(Continued)

The budget basis of accounting does not differ significantly from the modified accrual basis to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. Unexpended appropriations lapse at fiscal year-end.

CAPITAL ASSETS

Capital outlays are recorded as expenditures of the General Fund and as assets in the governmental-wide statements to the extent the Fire Authority's threshold of \$ 500 is met. Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

Buildings 20 - 30 years

Infrastructure 10 - 65 years

Furniture and Other

Equipment 5 - 20 years

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

COMPENSATED ABSENCES

There are no compensated absences to be reported.

POST-EMPLOYMENT BENEFITS

There are no post-employment benefits for the Caspian-Gaastra Fire Authority.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE B - INTERFUND ACTIVITIES

INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables do not represent interfund borrowings; instead, they represent actual amounts which are pending between funds at year-end due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

On June 30, 2004, the Fire Authority had no interfund receivables/payable.

OPERATING TRANSFERS

Interfund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

During the fiscal year ended June 30, 2004, there were no transfers.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE B - INTERFUND ACTIVITIES (CONTINUED)

OTHER FINANCING SOURCES (USES)

The transfers of cash between the various Fire Authority's funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

PRIMARY GOVERNMENT

On June 30, 2004, the carrying value of the Fire Authority's deposits (Primary Government) was \$ 11,505 and is comprised of cash and deposits reflected in the following funds:

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT (Continued)

Governmental Funds

General Fund	\$	10339
Debt Service Fund		<u>1166</u>
Total Governmental Funds	\$	11505

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the local unit's cash deposits classifies cash according to three levels of risk.

The three levels of risk are as follows:

Category 1	Deposits which are insured or collateralized with securities held by the Fire Authority or by its agent in the Fire Authority's name.
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CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

Category 2	Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Fire Board's name.
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Category 3	Deposits which are not collateralized or insured.
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Based on these levels of risk, the Fire Authority's cash deposits (Primary Government) are classified as follows:

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

SCHEDULE OF CASH AND DEPOSITS

PRIMARY GOVERNMENT

	<u>Category</u> <u>1</u>	<u>Category</u> <u>2</u>	<u>Category</u> <u>3</u>	<u>Total</u>
Cash and Deposits	\$ 11505	\$ -0-	\$ -0-	\$ 11505

INVESTMENTS

The Fire Authority's investments are categorized below to give an indication of the level of risk assumed at year-end. **Category 1** includes investments that are insured or registered or for which the securities are held by the Fire Authority or it's agent in the Fire Authority's name.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

INVESTMENTS (Continued)

Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's safekeeping department or agent in the Fire Authority's name. **Category 3** includes uninsured and registered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the Fire Authority's name.

The Fire Authority has no investments as reflected below:

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Value</u>	<u>Market Value</u>
	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
Total Investments	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY

Act 196, PA 1997, authorizes the Fire Authority to deposit and invest in:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
5. Bankers acceptances of United States banks.
6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Act of 1950 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

The Fire Authority has adopted an investment policy, allowing for all types of deposits and investments listed above. The Fire Authority's deposits and investments are in compliance with its investment policy.

NOTE D - PENSION PLAN

The Fire Authority does not maintain a pension plan.

NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

BUDGET VIOLATIONS

P.A. 621 of 1978, SECTION 18 (1), as amended, provides a local unit shall not incur expenditures in excess of the amounts appropriated.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

**NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS
(CONTINUED)**

BUDGET VIOLATIONS (Continued)

The Caspian-Gaastra Fire Authority's actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis. The approved budgets of the Caspian-Gaastra Fire Authority were adopted at the activity level. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

The total actual 2003-2004 expenditures exceed the amended budget allocations by \$ 794.

<u>General Fund</u>	<u>Actual</u>	<u>Budget</u>	<u>Over Expenditures</u>
Public Safety	\$ 17554	\$ 16795	\$ 759
Capital Outlay	<u>70904</u>	<u>70869</u>	<u>35</u>
Total	\$ 88458	\$ 87664	\$ 794

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE F - ACCUMULATED FUND DEFICITS

At June 30, 2004, the Fire Authority had no fund balance/retained earnings deficit in any fund.

NOTE G - RISK MANAGEMENT

The Fire Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fire Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Fire Authority.

NOTE H - CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2004:

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE H - CAPITAL ASSETS (CONTINUED)

GOVERNMENTAL ACTIVITIES

	Balance March 31, 2003	<u>Increases</u>	<u>Decreases</u>	Balance March 31, 2004
<u>Capital Assets Not Being Depreciated</u>				
Land and Land Improvements	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Total Capital Assets Not Being Depreciated	\$ -0-	\$ -0-	\$ -0-	\$ -0-
<u>Other Capital Assets</u>				
Buildings	164886	-0-	-0-	164886
Furniture & Other Equip.	156492	70904	-0-	227396
Total Other Cap. Assets	\$ 321378	\$ 70904	\$ -0-	\$ 392282
<u>Less Accumulated Depreciation for:</u>				
Buildings	(8244)	(3298)	-0-	(11542)
Furniture & Other Equip.	(22995)	(19194)	-0-	(42189)
Total Accum. Depreciation	(31239)	(22492)	-0-	(53731)
Other Capital Assets, Net	290139	48412	-0-	338551
TOTALS	\$ 290139	\$ 48412	\$ -0-	\$ 338551

Depreciation was charged to governmental functions as unallocated.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE I - LONG-TERM DEBT

The following is a summary of the primary government's long-term debt obligation at June 30, 2004:

	<u>July 01, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2004</u>
<u>NOTES PAYABLE</u>				
<i>Wells Fargo Bank</i>				
# 000-00-0001-8	\$ 154609	\$ -0-	\$ 5084	\$ 149525
<i>Republic Bank</i>				
# 5003000686	91593	-0-	69446	22147
<i>City of Caspian</i>	<u>-0-</u>	<u>18040</u>	<u>-0-</u>	<u>18040</u>
Totals	\$ <u>246202</u>	\$ <u>18040</u>	\$ <u>74530</u>	\$ <u>189712</u>

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE I - LONG-TERM DEBT (CONTINUED)

NOTES PAYABLE -

WELLS FARGO BANK FIRE HALL LOAN # 000-00-0001-8

On April 11, 2001, the Caspian-Gaastra Fire Authority entered into an installment agreement with the Wells Fargo Bank for the purchase of the Fire Hall in the amount of \$ 164,885.86, bearing interest at the rate of 5.75% per annum, payable in 240 monthly payments of \$ 1,165.59 beginning May 11, 2001, with all subsequent payments due on the eleventh of each month thereafter.

The principal balance of the note on June 30, 2004 was \$ 149,525.

REPUBLIC BANK FIRE TRUCK LOAN # 5003000686

On May 24, 2002, the Caspian-Gaastra Fire Authority entered into an installment purchase agreement with Oshkosh Fire & Police Equipment, Inc. and Republic Bank for the purchase of a Fire Truck in the amount of \$ 103,000.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE I - LONG-TERM DEBT (CONTINUED)

REPUBLIC BANK FIRE TRUCK LOAN # 5003000686
(Continued)

The Note bears interest at the rate of 5.15%, payable in 6 annual installments of \$ 16,785.00 and a balloon payment of \$ 24,999.83.

The Cities of Caspian and Gaastra each will pay a portion of the purchase price of \$ 103,000 in principal installments at an interest rate equal to 5.15% per annum.

CITY OF CASPIAN

On January 5, 2004, the City of Caspian paid \$ 18,039.88 to Republic Bank on behalf of the **Caspian-Gaastra Fire Authority**. This is a partial payment toward the balloon payment on the Fire Truck loan # 5003000686. This amount is payable to the City of Caspian on June 30, 2008.

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE J - RELATED PARTY TRANSACTIONS

Related parties exist when there is a relationship that offers the potential for transactions at less than arm's length, favorable treatment, or the ability to influence the outcome of events differently from that which might result in the absence of that relationship.

Financial statements must include disclosure of material related party transactions, other than compensation arrangements, expense allowances and similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements.

On this basis, there were no related party transactions reported in the financial statements.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE K - SUBSEQUENT EVENTS

Subsequent events have a material effect on the financial statements which requires adjustment or disclosure. They relate to events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

At fiscal year ended June 30, 2004, there were no subsequent events that would have a significant affect on the Fire Authority's operations.

NOTE L - COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies to be reported for the **Caspian-Gaastra Fire Authority** for the fiscal year ended June 30, 2004.

REQUIRED SUPPLEMENTAL INFORMATION

CASPIAN-GAASTRA FIRE AUTHORITY

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

YEAR ENDED JUNE 30, 2004

	<u>ORIGINAL BUDGET</u>	<u>FINAL AMENDED BUDGET</u>	<u>ACTUAL</u>
<u>REVENUE</u>			
Local Unit Assessments	\$ 18000	\$ 23892	\$ 23892
Use of money and property	20	10	9
Other revenue	2200	2455	1456
Intergovernmental	<u>6969</u>	<u>64997</u>	<u>64997</u>
TOTAL REVENUE	27189	91354	90354
<u>EXPENDITURES</u>			
Administration	2250	2425	2300
Public Safety	22170	14370	15254
Capital Outlay	<u>6969</u>	<u>70869</u>	<u>70904</u>
TOTAL EXPENDITURES	31389	87664	88458
 NET CHANGE IN FUND BALANCE	 (4200)	 3690	 1896
 FUND BALANCE - BEGINNING OF YEAR	 <u>11959</u>	 <u>11959</u>	 <u>11959</u>
FUND BALANCE - END OF YEAR	\$ <u>7759</u>	\$ <u>15649</u>	\$ <u>13855</u>

The notes to the financial statements are an integral part of this report.

OTHER SUPPLEMENTAL INFORMATION

CASPIAN-GAASTRA FIRE AUTHORITY

GENERAL FUND - FUND BALANCE

JUNE 30, 2004

ASSETS

Cash	\$	10339
Prepaid Insurance		<u>3516</u>

TOTAL ASSETS	\$	<u><u>13855</u></u>
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FUND EQUITY

Fund Balance, Unrestricted		<u>13855</u>
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TOTAL FUND EQUITY	\$	<u><u>13855</u></u>
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The notes to the financial statements are an integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ACTUAL AND BUDGET**

GENERAL FUND

FISCAL YEAR ENDED JUNE 30, 2004

	<u>ACTUAL</u>	<u>BUDGET</u>	VARIANCE Favorable (Unfavorable)
<u>REVENUES</u>			
Assessments	\$ 18000	\$ 18000	\$ 0
Assessments (Local Match)	5892	5892	0
Federal Grants	64997	64997	0
Interest	9	10	(1)
User Fees	0	1000	(1000)
Rent	1200	1200	0
Miscellaneous Revenue	<u>256</u>	<u>255</u>	<u>1</u>
Total Revenues	90354	91354	(1000)
 <u>EXPENDITURES</u>			
<u>PUBLIC SAFETY</u>			
Contracted Services	1200	1400	200
Insurance			
Liability	5848	5500	(348)
Workers' Compensation	967	970	3
Maintenance and Repair	218	1100	882
Bad Debts Expense	2010	0	(2010)
Supplies	94	100	6
Legal	86	125	39
Audit	969	1000	31
Treasurer/Clerk			
Fees	1050	1050	0
Supplies	195	250	55
Utilities	4691	5000	309
Other Expenses	<u>226</u>	<u>300</u>	<u>74</u>
Total Public Safety	17554	16795	(759)
 <u>CAPITAL OUTLAY</u>	<u>70904</u>	<u>70869</u>	<u>(35)</u>
 TOTAL EXPENDITURES	<u>88458</u>	<u>87664</u>	<u>(794)</u>
 Excess of Revenues Over (Under) Expenditures	 1896	 3690	 (1794)
 FUND BALANCE, JULY 1	 <u>11959</u>		
FUND BALANCE, JUNE 30	\$ <u>13855</u>		

The notes to the financial statements are an integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

DEBT SERVICE - FUND BALANCE

JUNE 30, 2004

ASSETS

Cash	\$	<u>1166</u>
TOTAL ASSETS	\$	<u><u>1166</u></u>

FUND EQUITY

Fund Balance, Restricted		<u>1166</u>
TOTAL FUND EQUITY	\$	<u><u>1166</u></u>

The notes to the financial statements are an integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

DEBT SERVICE FUND

FISCAL YEAR ENDED JUNE 30, 2004

REVENUES

Assessments	\$ 86984
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EXPENDITURESLONG-TERM DEBT

Principal	74530
Interest	<u>12454</u>

TOTAL EXPENDITURES	\$ 86984
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Excess of Revenues Over (Under) Expenditures	0
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FUND BALANCE, JULY 1	<u>1166</u>
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FUND BALANCE, JUNE 30	\$ <u><u>1166</u></u>
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The notes to the financial statements are an integral part of this report.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Governing Board
Caspian-Gaastra Fire Authority
Caspian, Michigan 49915

We have audited the financial statements of the governmental activities and each major fund as of and for the year ended June 30, 2004, which collectively comprise the **Caspian-Gaastra Fire Authority's** financial statements, and have issued our report thereon dated October 04, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the **Caspian-Gaastra Fire Authority's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

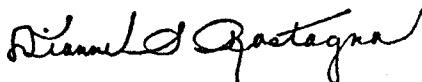
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Caspian-Gaastra Fire Authority's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no such matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

However, we noted certain matters involving the internal control structure and its operations that we have reported to the management of the **Caspian-Gaastra Fire Authority**, Caspian, Michigan, in a separate letter dated October 04, 2004.

This report is intended for the information of the Board, administration, and federal awarding agencies and pass-through entities, and it is not intended to be, and should not be, used by anyone other than these specified parties.



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 04, 2004

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Governing Board
Caspian-Gaastra Fire Authority
Caspian, Michigan 49915

In planning and performing the audit of the financial statements of the **Caspian-Gaastra Fire Authority**, I considered the Authority's internal control structure to plan the auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance in the internal control structure.

However, during my audit, I noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect my report dated October 04, 2004 on the financial statements of the **Caspian-Gaastra Fire Authority**. I will review the status of these comments during my next audit engagement. My comments and recommendations, which have been discussed with appropriate officials, are intended to improve the internal control structure or result in operating efficiencies. I will be pleased to discuss these comments in further detail at your convenience or to assist you in implementing the recommendations. My comments are summarized as follows:

BUDGETARY

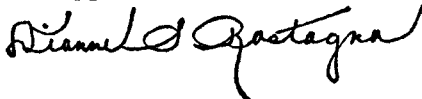
Problem

During the fiscal year ended June 30, 2004, the Authority incurred several expenditures in excess of the amounts appropriated.

Recommendation

It is recommended that closer monitoring be done in regards to budgetary appropriations and expenditures.

It has been a pleasure working with the Authority officials and I wish to express my appreciation for their cooperation and assistance during the audit engagement.



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 04, 2004

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

October 04, 2004

Governing Board
Caspian-Gaastra Fire Authority
P.O. Box 530
Caspian, Michigan 49915

I have audited the financial statements of the **Caspian-Gaastra Fire Authority** for the fiscal year ended June 30, 2004, and have issued my report thereon dated October 04, 2004. Professional standards require that I provide you with the following information related to the audit:

My Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in my engagement letter dated September 07, 2004, my responsibility, as described by professional standards, is to plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by me.

As part of the audit, I considered the internal control of the **Caspian-Gaastra Fire Authority**. Such considerations were solely for the purpose of determining the audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the **Caspian-Gaastra Fire Authority's** compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the **Caspian-Gaastra Fire Authority** are described in the Note to the financial statements. With the exception of the implementation of GASB 34, there were no new accounting policies adopted and the application of existing policies was not changed during this year. We noted no transactions entered into by the **Caspian-Gaastra Fire Authority** during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

There were no sensitive estimates affecting the financial statements as presented.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. These adjustments may include those proposed by me but not recorded by the **Caspian-Gaastra Fire Authority** that could potentially cause future financial statements to be materially misstated, even though I have concluded that such adjustments are not material to the current financial statements. I proposed no audit adjustments that could, in my judgment, either individually or in the aggregate, have a significant effect on the **Caspian-Gaastra Fire Authority's** financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of the audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

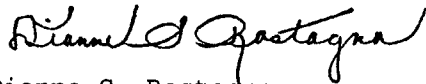
I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the **Caspian-Gaastra Fire Authority's** auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing the audit.

This information is intended solely for the use of the Board and management of the **Caspian-Gaastra Fire Authority** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Dianne S. Rostagno".

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.